

LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Development Finance Authority
Year Ended June 30, 1998

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**REVIEW: 4075
ILLINOIS DEVELOPMENT FINANCE AUTHORITY
YEAR ENDED JUNE 30, 1998**

**FINDINGS/RECOMMENDATIONS - 4
NOT ACCEPTED - 1
PARTIALLY ACCEPTED - 1
ACCEPTED - 2
REPEATED RECOMMENDATIONS - 0**

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 1

This review summarizes the audit of the Illinois Development Finance Authority for the year ended June 30, 1998, filed with the Legislative Audit Commission April 27, 1999. The auditors performed a financial and compliance audit in accordance with State law and the requirements of the Federal Single Audit Act of 1984. The auditors stated that the financial statements of the Illinois Development Finance Authority were fairly presented.

The Illinois Development Finance Authority was created in 1983 and is governed by a 15-member board. The operations of the Illinois Environmental Facilities Financing Authority and the Illinois Industrial Developmental Authority were combined to form the Illinois Development Finance Authority (IDFA). The mission of IDFA is to stabilize and strengthen the Illinois economy in areas of job creation and job retention by providing flexible and low-cost financing to businesses, municipalities, and other organizations. The members of IDFA are not entitled to compensation for their services, but are entitled to reimbursement for all expenses incurred in connection with their duties. The members of IDFA appoint an executive director.

The current Executive Director of the Illinois Development Finance Authority is Mr. Bobby J. Wilkerson. Mr. Wilkerson was appointed to the position April 24, 1995.

The average number of employees was:

1998 - 25; 1997 - 25; 1996 - 19.

IDFA has offices located in Chicago, Carbondale, Peoria, and Springfield.

Financial Information

The Illinois Development Finance Authority receives most of its operating support from service fees and investment income. The monies are held locally and are not subject to appropriation control. Appendix A provides the comparative balance sheets at June 30,

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1998 and 1997. At June 30, 1998 the balance sheet stood at \$44,594,127, and as of June 30, 1997 at \$46,574,430. The reason for the decrease in the balance sheet as of June 30, 1998 was due to the shifting of cash to investments and loans and the purchase of an investment in seven additional companies. The Authority has invested in two partnerships and eight companies which were formed to accomplish the statutory purpose of the Illinois Venture Investment Fund, the Illinois Cerulean Venture Fund Limited Partnership, the Arch II Parallel Fund Limited Partnership, and Harmonic Vision. There is no established market for the purchase or sale of these partnership and company interests or the equity securities in which the partnerships have investments. The Authority records these investments at their fair values as determined by the partnership and company's management. The fair value of the Authority's investment in the two partnerships and the eight companies as of June 30, 1998 is \$3,491,940.

Appendix B provides a comparative summary of revenues and expenditures for 1998 and 1997. Revenues increased from \$2,462,425 in FY97 to \$2,590,707 in FY98. Total expenses also increased from \$2,739,413 in FY97 to \$2,997,699 in FY98. Personal services increased \$77,876; contractual services increased \$109,202 and included various expenditures for legal services totaling \$121,399; and EDP increased \$50,879. The Authority had excess revenues over expenditures in 1998 of \$857,637, compared to excess revenues over expenditures of \$275,284 in FY97.

Appendix C provides a summary of the Authority's cash funds and depositories and investments. Cash and deposits at June 30, 1998 totaled \$13,469,412, compared to \$14,580,561 as of June 30, 1997. The value of the Authority's investments as of June 30, 1998 was \$14,775,680.

Appendix D summarizes the Authority's property and equipment. The Authority decreased its property balance from \$587,234 as of June 30, 1997 to \$581,499 as of June 30, 1998.

The Authority issues revenue bonds, economic development bonds and environmental facilities financing bonds, all of which are repayable solely from funds pledged by the recipient companies. Appendix E summarizes this bond activity during 1995. Principal outstanding as of June 30, 1998 totaled \$5,272,849,765.

Jobs Created or Retained

According to the Authority's records, 1,182 jobs were created or retained as the result of IDFA direct loans and other bond programs in FY98. This compares to 1,173 jobs in FY97 and 1,335 jobs that were created or retained in FY96. Data regarding the number of jobs created or retained is found in Appendix F and is not audited.

Accountants' Findings and Recommendations

Condensed below are the four findings and recommendations presented in the audit report. There were no repeated recommendations. One prior recommendation has either been withdrawn or implemented. The following recommendations are classified on the basis of information provided by Bobby J. Wilkerson, Executive Director, in a letter dated June 1, 1999.

Not Accepted

2. Adhere to the State's requirements for reimbursement of only travel expenses and related expenses that are business related.

Findings: The Authority paid for various expenses of an event held in Southern Illinois for which the business purpose was not clear:

1. \$1,368 in travel expenses were reimbursed to 12 employees for an event held in Southern Illinois to honor a senior Authority employee who was leaving after 25 years of employment;
2. \$1,393 in related expenses were paid by the Authority for car rentals, a band, room rental, and food; and
3. \$297 of a \$642 jewelry item for a senior Authority employee was paid by the Authority.

Response: The Authority disagrees. The Authority authorized the event and payment of related costs as a marketing opportunity for the Authority to meet and discuss financing services with a large and targeted audience in Southern Illinois. As part of this event, an employee was honored for his 25 years of service to the Authority.

Partially Accepted

1. **Comply with travel regulations of the Travel Regulation Council and the Governor's Travel Control Board and reimburse only those travel expenses that are allowable, adequately supported, reasonable and necessary. Exceptions to specific provisions of the Travel Regulations should be requested and approved in advance by the Travel Control Board.**

Partially Accepted - concluded

Findings: During the audit, all travel vouchers and travel-related credit card charges for one employee for FY98 was tested. These exceptions were noted:

1. No receipts for expenditures totaling \$7,083;
2. Meals totaling \$5,260 did not always list the business purpose of the meeting;
3. There were 28 instances in which per diem was claimed in addition to meals charged on credit cards;
4. Meals totaling \$180 for State employees and officers were reimbursed without a request for exception from the Travel Guidelines;
5. Charges totaling \$300 for Friday night stays at employee owned lodging in Springfield were not proven necessary or adequately supported with requests for per diem;
6. The Authority was charged \$74 for a "no show" cost at a hotel; and
7. There were a few personal charges noted on the government credit card.

Response: As a quasi-governmental entity, which receives no State funds, the Authority is given the statutory authorization to establish its own budget and appropriate funds for allowable expenditures. The Authority has established procedures and controls that are fiscally prudent and appropriate and found generally acceptable during prior audits.

It is the Authority's policy to comply with the rules and procedures of the Governor's Travel Control Board (GTCB). There are supplemental marketing expenditures that are approved by the Board in addition to the standard travel expenditures to enable employees to conduct meetings with financial, legal, and economic development professionals when the purpose of such meetings is related to official Authority business. To the exceptions noted above:

1. The Authority disagrees. The Authority has photocopies of all credit card charges sufficient to demonstrate full accountability for its business and marketing expenses;
2. The Authority disagrees. Sufficient documentation in other acceptable accounting formats is available to demonstrate appropriate business and marketing expenditures;

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3. The Authority disagrees. While a few clerical errors were made, there was no double billing for meals. An audit review of reports submitted by the employee has been complete and no amounts are due to/from the employee;
4. The Authority claims the \$180 for meals for non-employees was a marketing expense and not subject to GTCB guidelines;
5. The Authority provided documentation to support the business purpose of the Friday night stays, even though the employee did not provide information to support working on Saturday or claim per diem for Saturday.
6. The Authority agrees. This was a clerical error and the policy is to follow GTCB guidelines; and
7. The authority agrees. The Authority has canceled its charge card.

The Authority contacted GTCB on December 8, 1998 to explain the nature of the Authority's activities, its interpretation of allowable expenditures, control procedures and to obtain concurrence by GTCB. The Chairman of the Audit/Finance Committee has appointed a member to review all marketing, travel and public relations vouchers and original documentation submitted by the Director on a monthly basis. The reimbursement forms have been redesigned to provide greater detail and documentation, and an outside auditor has been contracted to review all staff reimbursements.

Accepted

3. **Implement formal policies and procedures requiring employees to provide supporting receipts for all parking reimbursements. Authority management should review vouchers and whenever appropriate include cost in employee's gross income.**

Findings: Expense reimbursements for parking were paid without appropriate documentation and were not properly included in gross income for employee individual tax purposes.

Response: Accepted. On August 31, 1998, all reimbursements lacking appropriate receipts were converted to gross income for the employee. Formal policies that require employees to provide receipts for all parking reimbursements are in place.

4. **Develop a comprehensive policies and procedures manual for all major accounting systems.**

Findings: The Authority does not have formal written policies and procedures available for accounting and operating personnel.

Response: Accepted. The Authority expects to complete the manual prior to June 30, 1999.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that "the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY98, the Illinois Development Finance Authority did not file any affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The last time the Illinois Development Finance Authority filed a Travel Headquarters Designation form was on November 30, 1994. At that time, the Authority had no employees assigned to locations other than official headquarters.

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APPENDIX A

Comparative Balance Sheets at June 30

<u>ASSETS</u>	<u>1998</u>	<u>1997</u>
Cash	\$ 13,469,412	\$ 14,580,561
Receivables		
Loans	7,349,202	5,992,140
Interest	120,830	150,650
Other	4,500,000	4,500,000
Prepaid expenses & deposits	149,109	64,985
Fixed assets, net	46,551	108,170
Investment in partnerships	3,491,940	2,315,864
Investments	11,283,740	12,425,376
Due from other funds	4,183,343	6,436,684
TOTAL ASSETS	\$ 44,594,127	\$ 46,574,430
<u>LIABILITIES & FUND EQUITY</u>		
Accounts payable	\$ 365,733	\$ 262,455
Accrued expenses	189,212	74,994
Due to employees	109,226	616,434
Due to other funds	4,183,343	6,436,684
Current portion of long-term debt	1,868,637	2,163,524
Total Liabilities	6,716,151	9,554,091
Fund equity:		
Contributed capital -		
State general funds	16,770,868	16,770,868
Federal EDA funds	1,737,506	1,737,506
Retained earnings	14,670,862	13,789,625
Fund balances -		
Reserves for intergovernmental receivables	4,500,000	4,500,000
Unreserved, undesignated	198,740	222,340
Total fund equity	37,877,976	37,020,339
TOTAL LIABILITIES & FUND EQUITY	\$ 44,594,127	\$ 46,574,430

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APPENDIX B

Comparative Summary of Revenues and Expenditures

<u>Revenues</u>	1998	1997
Interest on loans	\$ 560,893	\$ 414,650
Application fees	135,873	68,825
Administrative service fees	1,859,391	1,920,603
Miscellaneous revenue	34,550	58,347
Total Revenues	2,590,707	2,462,425
<u>Expenses</u>		
Personal services	\$ 1,282,591	\$ 1,204,715
Employee benefits	309,252	298,078
Depreciation	82,986	93,960
Contractual services	1,034,476	925,277
Travel	64,037	52,739
Commodities	19,841	17,401
Printing	18,826	21,973
Telecommunications	42,946	43,286
EDP	125,593	74,714
Operations of autos	17,151	17,964
Provisions for uncollectible accounts	-	(10,694)
Total Expenses	2,997,699	2,739,413
<u>Other revenues (expenses):</u>		
Interest on investments	1,386,905	1,383,445
Interest expense	(50,477)	(46,345)
Realized loss on investments	(71,801)	(784,828)
Total Other Revenues	1,264,627	552,272
Excess (Deficiency) of Revenues	\$ 857,637	\$ 275,284

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APPENDIX C

<u>Cash and Depositories</u>		
	<u>1998</u>	<u>1997</u>
American National Bank, Chicago - checking	\$ 42,148	\$ 24,364
American National Bank, Chicago - certificate of deposit	1,000,000	2,223,600
American National Bank, Chicago - money market	-	141,702
Banterra Bank of Marion	3,707,775	3,584,969
First National Bank of Springfield	1,965,756	1,869,201
First National Bank of Chicago	844,250	-
LaSalle Bank, Chicago - checking	354,565	200,402
LaSalle Bank, Chicago - certificate of deposit	3,749,826	3,788,186
LaSalle Bank, Chicago - money market	800,000	200,000
Union Bank of Illinois Swansea, Illinois - money market	1,004,792	-
Pan-American Bank, Chicago	-	504,695
Seaway National Bank of Chicago	-	2,043,142
Petty Cash	300	300
TOTAL	\$ 13,469,412	\$ 14,580,561

<u>Investments</u>		
	<u>1998</u>	<u>1997</u>
General Operating Fund	\$ 2,620,925	\$ 1,198,620
Industrial Reserve Bank	2,960,344	3,921,693
Venture Investment Fund	9,194,411	8,761,396
Credit Enhancement Development Fund	-	859,531
TOTAL	\$ 14,775,680	\$ 14,741,240

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APPENDIX D

	<u>Property and Equipment</u>	
	<u>1998</u>	<u>1997</u>
Beginning Balance	\$ 587,234	\$ 571,044
Additions -		
Furniture & Fixtures	1,058	9,069
Leasehold Improvements	-	-
Computer Equipment	20,884	7,121
Total Additions	609,176	16,190
Deductions -		
Furniture & Fixtures	7,600	-
Leasehold Improvements	-	-
Computer Equipment	20,077	-
Total Deductions	27,677	-
Ending Balance	\$ 581,499	\$ 587,234

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APPENDIX E

Summary of Limited Obligation Revenue Bonds

<u>Bonds</u>	<u>Principal Outstanding June 30, 1998</u>	<u>Principal Outstanding June 30, 1997</u>
Environmental	\$ 1,435,888,669	\$ 1,485,828,669
Distressed Bonds	19,600,000	20,300,000
Housing	301,600,000	206,060,000
Industrial Development	1,044,853,583	1,069,948,386
Insured Industrial Revenue	-	4,365,000
Local Government Bonds	500,058,834	472,390,573
Infrastructure Revenue	-	-
Total Certificate of Participation Bonds	45,500,000	48,000,000
501 (C)3 Not for Profit	1,925,348,679	1,382,601,666
TOTAL	<u>\$5,272,849,765</u>	<u>\$ 4,689,494,294</u>

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APPENDIX F

Summary of Jobs Created or Retained

<u>Fiscal Year</u>	<u>Direct Loan Amounts</u>	<u>Jobs Created/ Retained</u>	<u>Industrial Revenue Bonds</u>	<u>Jobs Created/ Retained</u>	<u>Other Bonds</u>	<u>Jobs Created/ Retained</u>	<u>Total Jobs</u>
1977	\$ 45,096	45	-	-	-	-	45
1978	196,599	147	-	-	-	-	147
1979	423,500	202	-	-	-	-	202
1980	1,068,175	305	\$ 1,800,000	51	-	-	356
1981	1,524,978	266	5,866,000	263	-	-	529
1982	766,790	213	63,945,000	2,002	-	-	2,215
1983	270,000	130	13,190,000	440	-	-	570
1984	523,319	238	8,000,000	224	524,534	202	664
1985	521,000	132	189,022,500	4,542	135,800	53	4,727
1986	2,231,125	813	297,372,500	18,063	36,000	15	18,891
1987	2,456,050	822	142,251,800	3,919	133,000	54	4,795
1988	919,800	447	35,330,000	579	250,000	109	1,135
1989	494,839	216	84,492	666	-	-	882
1990	954,000	98	183,290,000	1,074	100,000	20	1,192
1991	954,053	68	155,386,000	1,100	314,400	43	1,211
1992	1,196,673	95	70,600,000	1,015	990,000	78	1,188
1993	587,000	61	35,000,000	594	648,000	51	706
1994	1,227,583	122	152,445,000	741	277,000	93	956
1995	509,776	252	155,220,000	1,797	467,000	19	2,068
1996	641,000	203	187,129,000	1,122	100,000	10	1,335
1997	2,197,740	246	131,790,000	834	930,700	93	1,157
1998	3,046,549	311	128,057,000	859	300,000	12	1,182